



February 24, 2006

BY ELECTRONIC FILING

Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: *Ex Parte* Letter on Rural Growth Factor Used to Determine High Cost Loop Support for Rural Carriers, CC Docket Nos. 96-45 and 01-92

On January 19, 2006, CenturyTel filed the above-referenced *ex parte* letter recommending that the Commission modify the Rural Growth Factor used to calculate the size of the rural high-cost loop (HCL) fund such that line growth can never be less than zero.¹

The Independent Telephone and Telecommunications Alliance (ITTA);² the National Telecommunications Cooperative Association (NTCA),³ the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO),⁴ and the Western Telecommunications Alliance (WTA)⁵ (jointly, the “Associations”) strongly support CenturyTel’s recommendation. By modifying the way the Rural Growth Factor is calculated, the Commission will help assure that support for rural high-cost study areas is sufficient and predictable, as required under section 254 of the Telecommunications Act of 1996.

¹ See Letter from Karen Brinkmann, Latham and Watkins, to Marlene H. Dortch, FCC, CC Docket Nos. 96-45 and 01-92 (Jan. 19, 2006) (*CenturyTel ex parte*).

² ITTA is an organization of midsize incumbent local exchange carriers (“ILECs”) that collectively serve over ten million access lines in over 40 states and offer a diversified range of services to their customers. Most ITTA member companies qualify as rural telephone companies within the meaning of Section 3(37) of the Communications Act of 1934, as amended (the “Act”) 47 U.S.C. § 153(37).

³ NTCA is a national industry association representing rural telecommunications providers. Established in 1954 by eight rural telephone companies, today NTCA represents 567 rural rate-of-return regulated incumbent local exchange carriers (ILECs). All of its members are full service local exchange carriers, and many members provide wireless, CATV, IPTV, Internet, satellite and long distance services to their communities. Each member is a “rural telephone company” as defined in the Act. NTCA members are dedicated to providing competitive modern telecommunications services and ensuring the economic future of their rural communities.

⁴ OPASTCO is a national trade association representing over 550 small ILECs serving rural areas of the United States. Its members, which include both commercial companies and cooperatives, together serve over 3.5 million customers. All OPASTCO members are rural telephone companies as defined in the Act.

⁵ WTA is a trade association that was formed by the merger of the Western Rural Telephone Association and the Rocky Mountain Telecommunications Association. It represents approximately 250 rural telephone companies operating west of the Mississippi River.



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The Rural Growth Factor was designed at a time when rural access lines were increasing each year. At that time, growth in rural working loops nationwide had been higher than growth in non-rural working loops nationwide.⁶ As CenturyTel points out, this is no longer the case.⁷ Rural access lines are now decreasing overall, while costs to maintain rural networks remain constant. This has caused a \$21.8 million reduction in the HCL fund in 2005, and will cause an additional \$57.9 million reduction in 2006. As the Commission is aware, HCL funding is already subject to a “cap”, which causes ILECs to receive less support than their costs would otherwise indicate. When a negative Rural Growth Factor is then used to lower the level of the fund cap, these carriers are penalized yet again.

A closer look at the underlying data reveals that most of the reductions in lines occurred among seventeen of the largest study areas. These study areas, having more than 200,000 working loops each at the end of 2003,⁸ accounted for approximately 53% of the total reduction of rural lines, but qualified for less than one quarter of one percent (<.25%) of the high cost loop support.⁹ Thus, small companies that may not be experiencing line count reductions are nonetheless experiencing unexpected and unpredictable reductions in support for reasons that are largely outside their control.

Even for those companies that are experiencing reductions in access lines on an individual basis, these reductions in support are unwarranted. As Carriers of Last Resort, ILECs are required to maintain service levels, including the capability to reinstitute services, notwithstanding losses in line levels. Because the cost of maintaining a network remains steady even though operational lines have declined, these carriers’ ability to maintain service becomes ever more difficult. Declining universal service support caused by the combination of a capped fund and a negative Rural Growth Factor means that the tests of “sufficiency” and “predictability” are no longer being met.

The Associations agree that the concerns identified in CenturyTel’s letter deserve Commission attention. The incremental adjustment to the rural High Cost Loop Support mechanism suggested by CenturyTel is a reasonable and needed modification that will mitigate the impact on ILECs of declining line counts in rural areas, without significantly expanding the overall size of the Fund. The Commission should therefore modify its rules so that the line growth figure used in the Rural Growth

⁶For example, the annual rate of growth in the total number of rural and non-rural working loops nationwide, which was 2.86 percent in 1999, was considerably less than the annual rate of growth in the total number of rural working loops nationwide, which was 4.26 percent in 1999. See NECA Universal Service Fund 2000 Submission of 1999 Study Results (Oct. 1, 2000); NECA Universal Service Fund 1999 Submission of 1998 Study Results (Oct. 1, 1999).

⁷ See *CenturyTel ex parte*.

⁸ Based on NECA’s September 2005 USF Submission, rural lines at year end 2004 were down some 700,000 from year end 2003. A review of the data for these two periods indicates that these seventeen study areas had a reduction of almost 366,000 working loops, accounting for approximately 53% of the total reduction for the entire rural universe. See NECA’s Universal Service Fund 2005 Submission of 2004 Study Results (Sept. 30, 2005).

⁹ Interestingly, only three of these properties have study area loop costs that would otherwise qualify them for receipt of a total of \$1.5 million of HCL support funding, based on the data submitted by NECA.



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Factor calculation can never be less than zero.

Respectfully submitted,

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